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BRIEF FOR SUBMISSION TO

"THE ONTARIO COMMITTEE ON TAXATION"

OCTOBER 1963

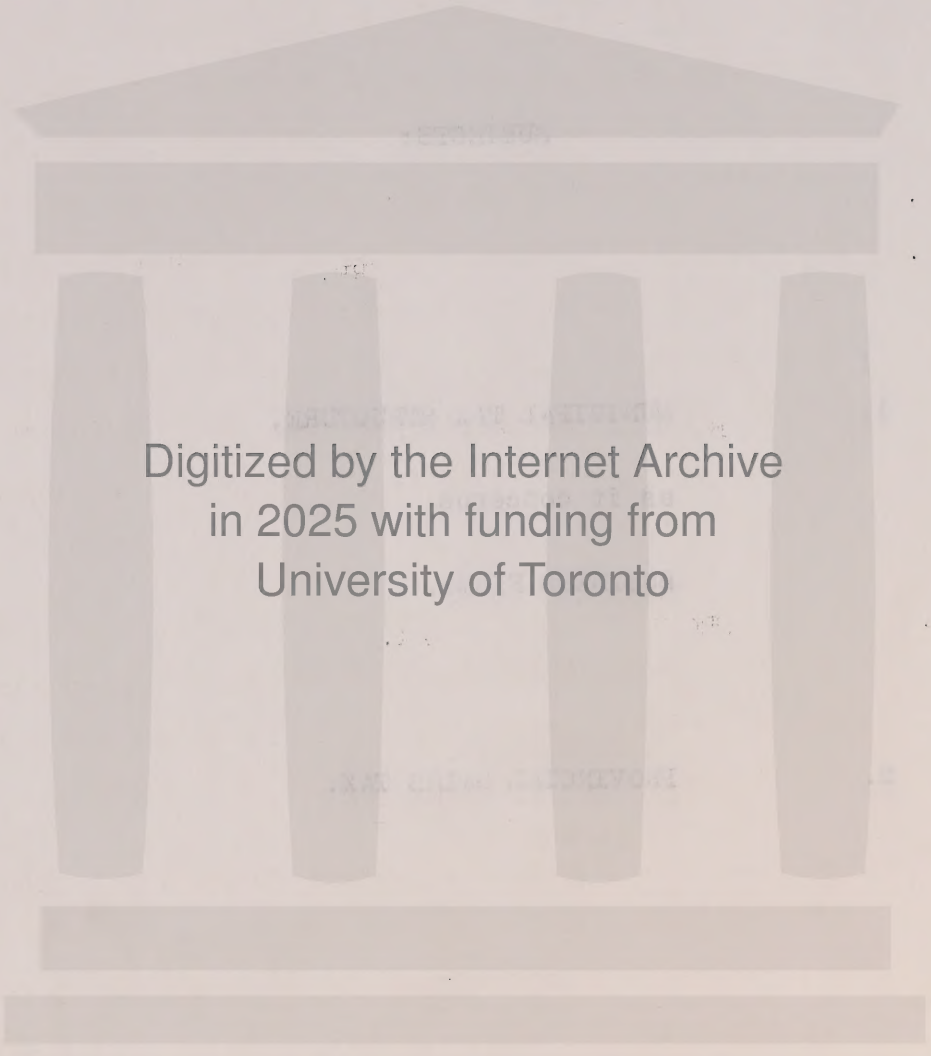
SUBMITTED BY: M. S. KERNIGHAN, P. Eng.,

MILTON, ONTARIO

SUBJECTS:

1. MUNICIPAL TAX STRUCTURE,
   as it concerns
   BUSINESS FIRMS.

2. PROVINCIAL SALES TAX.



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MUNICIPAL TAX STRUCTURE

I wish to make three criticisms of the present system of taxing business firms for municipal purposes, and to propose changes relating thereto.

The criticisms are:

1. The present basis for allocating the cost of operating the municipality amongst the citizens is to divide the taxes on the basis of the selling price of the property occupied. Many years ago, when almost all were farmers, this system may have been a fair division, but now it is an unrealistic and artificial system, insofar as business firms are concerned. There is no assurance that either the cost of the services being provided, or that the income available to pay the taxes will be in proportion to the selling price of the property.

2. The present business tax, plus the higher mill rate applicable to business firms results in an almost double tax on business properties, which is unfair for the same reasons as stated before.

3. The cost of education should not be charged to business firms, as they do not send children to school. Education should be the responsibility of the citizens as individuals.

In support of my statement that business firms are overtaxed, I offer the well known fact that municipalities scramble to secure new industries, because these produce more in taxes than they cost to service.

The result of these three features of our taxation system is a very unfair burden on the small business firm, such as that operated by one owner, as compared to the tax paid by a salaried employee.

In many cases the income of the owner of a business (either manufacturing or store), is less than that of some professional persons, and the final effect is that the professional pays only the taxes on his house, while the business owner pays on his house, plus an additional amount on his business. His total can amount to three times the amount paid by the professional. In large firms this may not be a problem, but for the small firm it is becoming disastrous.

The case of the farmer is more striking. In one Township investigated by the writer, the owner of one acre and house pays about $50 in taxes, while the farmer pays about $500, and in many cases the farmer has a lower income. It does not seem fair to ask the farmer to pay 90% of the cost of educating the other man's children out of a smaller income but that is what the present system does.

My proposals to correct this situation are:

1. Eliminate the business tax and the dual mill rate but continue the real estate tax on business property.

2. Charge the cost of education to personal income tax, collected as an overide on the Federal Income Tax.

PROVINCIAL SALES TAX

I wish to criticize the Provincial Sales Tax because of the amount of effort expended by business firms in collecting it.

In my manufacturing business we collect $400 per year in Provincial Tax from some 450 invoices, and we have to calculate the tax separately for each invoice. In addition we have to make reference to the tax on another 750 invoices, either by quoting an exemption number or stating that the product is exempt.

By contrast we collect $2,300 in Federal Sales Tax processing some 1500 invoices, but because the sales tax is included in the prices only a few calculations are needed.

By further contrast we pay about $900 in municipal taxes, all in one transaction.

An illustration of the wastefulness of the method of collecting the Provincial Sales Tax can be drawn from the Department of Highways. In Grandfather's day wheelbarrows and shovels were used to move the earth for building roads. This generation requires bigger roads, and bulldozers and earth movers are now used, both of which take much larger loads of earth at one time.

The Province now requires much larger sums of money to operate than in Grandfather's time, but it is not using bulldozers to collect the larger sums; it is not even using wheelbarrows; it is using spoons; this is the parallel when taxes are collected one cent at a time.

I have two proposals to offer:

If the Government feels a sales tax spreads the burden more fairly, put the tax at the manufacturer's level,

where it can apply to larger transactions, than it does at the retail level, and then possibly collect it as an overide on the Federal Sales Tax. My reason for tieing the two taxes together is to eliminate the differences in exemptions which now exists between the two taxes. Sales tax on shipments coming from outside the Province could be remitte by the purchasing firm, in the same manner as each firm is now asked to pay tax on materials consumed by it.

The second proposal is an ultimate reform, possibly too advanced for this inquiry. It is to operate on an income tax, and eliminate the vast multiplicity of taxes we now have. Various government bodies are urging manufacturers to operate more efficiently, so that we can compete in foreign markets. This just cannot be done when so much time has to be spent in the collection and calculation of various taxes and government reports we are now asked to make.

This brief is submitted by:

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